

**STATEMENT TO THE
SENATE COMMITTEE ON AGRICULTURE, NUTRITION
AND FORESTRY**

**HEARING ON THE
RURAL DEVELOPMENT PROGRAMS OF THE
UNITED STATES DEPARTMENT OF AGRICULTURE**

**June 20, 2006
Washington, DC**

Chairman Chambliss, Ranking Member Harkin and distinguished members of the Committee, my name is Mary McBride. I am Executive Vice President for the Communications and Energy Banking Group for CoBank. I appreciate the opportunity to present testimony on rural development programs provided for in the Farm Security and Rural Investment Act of 2002 (2002 Farm Bill) .

CoBank provides financial services to 2,400 customers throughout the United States. These customers are also CoBank's member-owners and include rural electric cooperatives, farmer-owned cooperatives, rural water systems and rural telecommunications companies. We also provide financing to support the export of agricultural products. CoBank is part of the federally chartered Farm Credit System and we, like the majority of our customers, are a cooperative. We are active members of a number of trade organizations including the National Rural Electric Cooperative Association (NRECA), the National Council of Farmer Cooperatives (NCFC) and the Farm Credit Council (FCC).

CoBank's exclusive focus is on rural America. The businesses that we finance, whether a rural electric cooperative, a local grain elevator or a new bio-fuels facility, are often the most important businesses in their rural communities. In 2005 we extended over \$26 billion in loans and leases to help capitalize rural-focused businesses. These businesses are also working to make a difference by creating new business opportunities for rural residents and new markets for farmers.

CoBank often works with other lenders including other Farm Credit institutions and many local, regional and national commercial banks to meet the needs of our customers. We currently have relationships with about 200 other lenders, including over 100 commercial banks, where we work together to meet the credit needs of rural America and agriculture. The fact is that rural communities today are more diverse and rural entrepreneurs need investors and financial partners to fuel economic growth in rural communities. Collaboration by financial services providers will be increasingly necessary to meet future needs.

The programs addressed in the 2002 Farm Security and Rural Investment Act contain many effective provisions that have helped support agriculture, rural America and consumers in general. CoBank appreciates the efforts of this Committee in developing an effective and efficient Farm Bill.

CoBank and our members are involved in a number of programs under the USDA Rural Development Programs. Let me briefly mention six areas of interest:

1. USDA Rural Utility Service

An important part of CoBank's mission is serving the needs of our customers in the area of electric distribution and power supply. CoBank currently provides approximately \$7 billion in loans to rural electric cooperatives. Many of our rural electric cooperative customers have borrowing relationships with both RUS and CoBank.

The need for financing for base-load power plants and stronger transmission systems is increasing substantially. To meet this need it will require increased lending by both the private sector and RUS. NRECA has highlighted the need for additional support for RUS as an important part of meeting future needs. CoBank anticipates increasing our lending for base load generation to help meet this demand. We look forward to working with RUS and other lenders in joint efforts to address the emerging needs for generation by rural electric cooperatives.

We believe opportunities exist for USDA to enhance its collaboration among private sector lenders and RUS. For example, the USDA Municipal Rates Loan Program requires a 30% private sector financing match. We have participated as a lender in this program and believe it has worked well to leverage the USDA's lending capacity.

We would also highlight one significant new effort by RUS relating to energy loans. The new RUS "lien machine" loan expediting program is a good example of revamping internal processes to provide better service to its customers. RUS staff developed this streamlined process that assists generation and transmission cooperatives to access significant capital at a low interest rate spread in a short time period. We have been able to utilize this program in recent transactions in Wisconsin and South Dakota to benefit rural electric cooperatives and their customers.

CoBank also anticipates increased lending to rural telecommunications companies. We currently provide \$2.9 billion in capital to over 200 rural telecommunications companies. Obviously the future economic viability of rural communities is very dependent upon a modern telecommunications network allowing high-speed internet service.

We commend USDA for its efforts with the dissolution of the Rural Telephone Bank as an unnecessary lending program that was tying up significant levels of capital for many telecommunications companies. As we go forward we believe the private sector can continue to meet more of the needs of the rural telecommunications industry.

Although not part of Rural Development Title or this committee's jurisdiction, I would be remiss if I did not mention the importance of the Universal Service Fund (USF) to rural communities. Most rural telecommunications businesses serve sparsely populated areas and therefore have higher costs than those serving urban and suburban areas. Maintaining a strong USF is essential to rural communities and rural telecommunications businesses.

2. Value-Added Agriculture Grants

The Value-Added Producer Grants program authorized in the Farm Bill has been used by a number of agricultural cooperatives. The program is helpful in supporting feasibility studies and providing start-up working capital necessary for the development of new ventures that offer the potential to create markets for farmers and to enhance employment in rural America. At times, CoBank's Business Advisory Services group works with these businesses as they consider new ventures.

CoBank supports this program as a way to assist farmer-owned businesses seeking to enhance farm income and obtain a greater share of the consumer food dollar. These types of projects are often hard to fund on strictly commercial terms and this program is essential to encouraging new ventures. Unfortunately while the 2002 Farm Bill authorized \$40 million annually for this program, it has been funded at significantly lower levels. The reduction in funding has also meant that USDA has reduced the amount of individual grants under this program, which has been detrimental to encouraging more ambitious projects. We believe that full funding of the Value-Added Producer Grants program is important to encourage new ventures relating to rural development.

3. Rural Business Investment Companies

The 2002 Farm Bill provided for a new Rural Business Investment Program and the creation of Rural Business Investment Companies (RBIC). The RBIC provision authorized commercial banks and Farm Credit institutions to create or participate in RBICs to encourage the investment of more equity capital into rural America. This program to date has not been as successful as had been anticipated in part because of limitations built into the current regulations.

The regulations relating to the RBICs have focused on those entities that are seeking government guarantees (leveraged RBICs). This RBIC provision could be more successful if the regulations also allowed for a streamlined process for establishing non-leveraged RBICs that are seeking no guarantees from the federal government. CoBank and other Farm Credit Systems institutions have made commitments to invest in RBICs that are currently under development.

4. USDA Cooperative Development

USDA has a long history of providing research, technical and educational assistance to farmer cooperatives. This can be especially helpful for start-up cooperatives. This is part of the Rural Business and Cooperative Services component of USDA. Continued support for this assistance will help new cooperative enterprises to be developed.

5. USDA Business and Industry Loan Guarantees

In order to facilitate credit for some CoBank customers we do, at times, work with certain customers to obtain B&I loan guarantees from USDA. The guarantee can be very helpful for certain agricultural cooperatives with low equity, although loans with B&I guarantees are a very small part of our lending portfolio.

The B&I program needs to be more flexible. For example, the program does not allow a guarantee for the start-up or construction phase of a new venture. Furthermore, a streamlined process is needed for approval of waivers and financial modifications, which are part of the normal lending process. The step-down in guarantee percentage as the deal size increases makes it difficult to use this program for larger capital intensive projects. Also the limitations on refinance of existing commitments should be revised. Finally the timetable for approval and funding is often longer than the marketplace will allow.

While we have found the USDA staff involved with this program to be knowledgeable of the agricultural industry and to possess good credit skills, rigid program guidelines and procedures create difficulties in dealing with fluid situations that exist with many borrowers.

6. Bio-Fuels Initiatives

CoBank is the leading lender to the bio-fuels sector in the country. New bio-fuels facilities are creating new jobs and economic activity in rural communities that previously had been declining. CoBank has provided or arranged for over \$1 billion in loans to over 40 bio-fuel facilities. Other Farm Credit institutions are also involved in lending to the bio-fuels sector.

The tax and other incentives provided to the bio-fuels sector are of utmost importance as this industry progresses. We look forward to working with this committee on further actions to strengthen the bio-fuels sector in the next Farm Bill.

Thank you for the opportunity to testify. I would be pleased to answer any questions that you might have.

CoBank
P.O. Box 5110
Denver, CO 80217

With \$34 billion in assets, COBANK has been the leading lender to some of America's most successful businesses since 1916.

RURAL AMERICA'S COOPERATIVE BANK

With \$34 billion in assets, COBANK has been a leading lender to some of America's most successful businesses since 1916. We provide financial services to cooperatives, agribusinesses, Farm Credit associations, energy and water systems, rural communications, and other businesses serving rural America. In addition, we finance agricultural exports and deliver international banking services.

Our Services

COBANK offers a broad range of flexible loan programs and specially tailored financial services to our customers. COBANK provides short-, intermediate- and long-term financing at variable and fixed interest rates. The bank offers CoLink[®] online financial solutions, CoTrade_{SM} electronic trade tool, letters of credit, interest rate risk management services and Business Advisory Services. We offer leasing through our wholly-owned subsidiary, Farm Credit Leasing Services Corporation (FCL). Through strategic alliances, we offer cash management services, private placements, equity sourcing, asset securitization services and tax-exempt bond financing. COBANK also finances agricultural exports and provides international banking services.

Our Ownership Structure

The bank is owned by its U.S. customer-owners, approximately 2,300 agricultural cooperatives, rural energy, communications and water systems, Farm Credit associations and other businesses that serve rural America. COBANK is governed by a board of directors elected by the cooperative owners of the bank. The board may appoint up to two additional directors (customer affiliation allowed) and must appoint at least two outside directors (independent of any affiliation), but not more than three. The bank operates on a cooperative basis and, historically, has returned a substantial portion of bank earnings to the bank's patronage customers in the form of patronage distributions.

Our Customers

COBANK's customers include local, regional and national agricultural cooperatives, rural communications, energy, water and waste disposal systems, Farm Credit associations and other businesses serving rural America.

Agricultural cooperatives process, market, transport and export products as diverse as fruits, vegetables, grains and fish. Others specialize in farm supply products, such as feed and fertilizer. Farm Credit associations or Agricultural Credit Associations (ACAs) provide financial services to agricultural and aquatic producers and rural homeowners. COBANK also finances agricultural exports.

In addition, we work with commercial banks and other Farm Credit institutions to syndicate loans, and we often act as an agent for these transactions. We buy and sell loan participations with other Farm Credit System banks and associations. We may also purchase interests in loans made by other financial institutions when they are related to agribusiness, ag trade, electric, telecommunications, water and waste disposal industries.

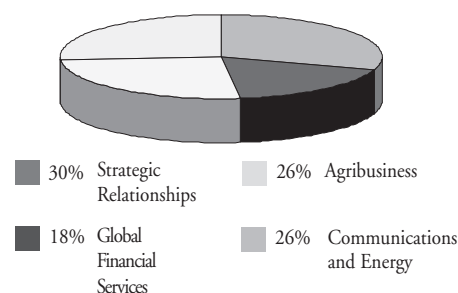
Our Funding

COBANK is part of the Farm Credit System, a \$140-billion nationwide network of lending institutions created by Congress in 1916. The funds to finance COBANK loans and leases primarily come from the sale of Farm Credit System securities to investors in the national and international money markets. Because of the market acceptance and attractiveness of Farm Credit securities and the volume of funds raised, COBANK offers competitive interest rates.

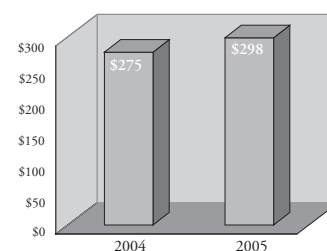
Our Office Locations

COBANK has banking centers across the United States and two international representative offices. Our national office is located in Denver, Colo., phone 1 (800) 542-8072 or (303) 740-4000. For more information, please visit www.cobank.com.

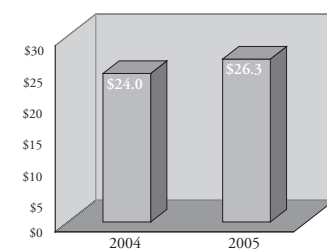
LOANS/LEASES OUTSTANDING \$26.3 BILLION



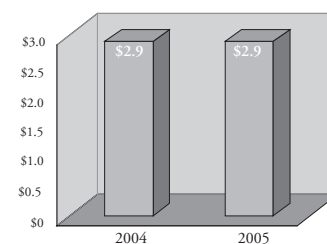
NET INCOME (\$ IN MILLIONS)



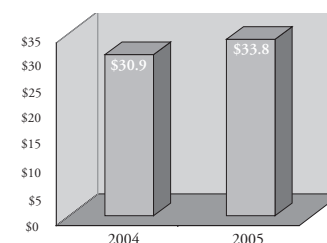
LOANS/LEASES OUTSTANDING (\$ IN BILLIONS)



CAPITAL (\$ IN BILLIONS)



TOTAL ASSETS (\$ IN BILLIONS)



Financial information as of Dec. 31, 2005

COBANK AGRIBUSINESS FINANCING

Since 1916, some of America's most successful businesses have turned to COBANK as their primary source of financial services. Today, COBANK works with Farm Credit banks and associations as well as commercial banks to bring the benefit of that experience to all types of agribusinesses—small and large, cooperative and noncooperative, across all industries. Through these alliances, we offer a broad range of flexible loan programs and specially tailored financial solutions.

Our Customers Rank Among America's Best

Many of COBANK's top customers are names you see daily in business publications or on the shelves of your local grocery store. Among our well-known customers are Humboldt Creamery, Corn Plus, Gulf Compress, House of Raeford and Tennessee Farmers Cooperative. Some of our customers' branded products include Sunsweet, Calavo and Norbest.

COBANK values these strong customer relationships and works hard to deliver superior satisfaction, which is why we're so proud that the majority of our agribusiness customers have had relationships with COBANK for decades. We also work with other financial institutions to finance all types of agribusinesses.

More Than Just a Lender

COBANK offers short-, intermediate- and long-term financing at variable and fixed interest rates. In addition, we provide a wide range of products and services to meet the unique needs of our agribusiness customers. Some of these offerings include leasing services, online banking, cash management, business consulting services, international trade finance services, tax-exempt bonds, private placements and equity sourcing.

The Benefits of COBANK

Because COBANK specializes in providing financial solutions to agribusinesses and rural America, we have the experience and relationships in the capital markets to take you to the next step financially. You'll enjoy many benefits from working with COBANK.

- **Industry experience.** COBANK has a long history of serving agribusinesses and an ongoing commitment to your industry. We provide financing to a wide variety of agricultural industries including the following:

- Agricultural financing
- Cotton
- Dairy
- Biofuels
- Fertilizers/chemicals/petroleum
- Fruits/nuts/vegetables
- Grain and farm supply
- Livestock/poultry/fish
- Oilseed products
- Rice
- Sugar/sweeteners
- Wood/paper products

- **Competitive interest rates.** COBANK is part of the \$140 billion Farm Credit System, created by Congress in 1916. Because of the market acceptance of our securities and the volume sold, COBANK is able to raise funds at competitive rates, which translates into competitive rates for our customers.

- **International expertise.** COBANK has established itself as the nation's premier financier of agricultural exports. We finance nearly \$200 million in agricultural export sales each month and have financed more than \$41 billion in agricultural exports since our first international loan in 1982. We maintain relationships with correspondent banks around the world.

Sound Financials

As of Dec. 31, 2005, COBANK had \$26.3 billion in loans and leases outstanding, \$33.8 billion in assets and \$2.9 billion in capital.



COBANK's agribusiness customers include Sun-Maid, Norpac and Upstate Farms.

Wide Range of Services

- **Customized loan programs.** COBANK offers loans and other financial solutions tailored to the needs of agribusinesses. We provide flexible terms for a variety of purposes ranging from seasonal lines of credit to construction facilities and long-term loans. COBANK offers a variety of interest rate alternatives, including fixed and variable rates and customer-managed programs.
- **Online banking.** Through COBANK Cash Manager, we provide a full suite of online cash management services integrated with your COBANK loans and investments. These services will help you maximize the value of idle cash, increase financial control and save time. Services include controlled disbursement checking, ACH processing, account reconciliation, merchant card services, positive pay, lock-box, electronic check deposit service, commercial cards, check imaging on CD-ROM, detailed online reporting

Continued

COBANK AGRIBUSINESS FINANCING (CONT.)

and AIM Institutional Money Market funds—each offered through alliances with some of the nation's leading financial providers. All activities are seamless and integrated using *CoLink*®, our Internet delivery channel. We also offer COBANK *Credit Manager* via *CoLink*®. This free service allows you to view investment rates, pay down your loan electronically, and initiate transfers and rate fixes online.

- *Leasing.* You can access leasing services through our wholly-owned subsidiary, Farm Credit Leasing (FCL), which specializes in leases for agribusinesses, rural communications and energy companies, and agricultural producers, many of whom are customers of Farm Credit associations. In total, FCL serves approximately 6,000 customers nationwide. Our experienced team of leasing experts understands agribusiness leasing needs. We've used our industry knowledge to create a broad range of flexible, easy-to-use leasing solutions—all targeted toward helping you achieve your financial objectives. Leasing is an excellent way to reduce costs, improve cash flow, avoid equipment obsolescence, free up capital and maximize tax advantages. We

lease a wide range of equipment, including fleet vehicles, lift trucks, machinery and implements as well as buildings.

- *Business consulting services.* COBANK'S *Business Advisory Services* team provides consulting services designed to help you better understand and act upon the possibilities for business success beyond tomorrow. We can help you gain market perspective with our industry assessments, assist you in evaluating investment decisions with asset and business valuations and help you position your organization to take real strategic action through our strategic business model approach.
- *Interest rate risk management solutions.* COBANK provides a variety of solutions that allow you to control interest rate risk and lock in acceptable rates. These include interest rate swaps, caps and collars, as well as forward rate fixing alternatives.
- *Letters of credit and commitment letters.* COBANK offers commitment letters to document the terms and conditions under which the bank will extend credit. These letters prove valuable in certain situations such as new construction or a major acquisition. In addition, the bank offers standby and commercial letters of credit. You can

also use *CoTrade*™, a specially designed electronic trade tool, to streamline letters of credit and collection operations.

- *Export financing.* We finance agricultural exports and provide international banking services for the benefit of U.S. agribusinesses from offices in Denver, Mexico City and Singapore.
- *Private placements.* We offer private placements through SPP Capital Partners, LLC, a specialty investment bank, as an additional way to raise debt or equity capital with institutional investors. SPP specializes in taking growing companies to private investors.
- *Tax-exempt bonds.* Through our alliance with W.R. Taylor & Co., LLC, COBANK coordinates tax-exempt bond financing for facilities and equipment related to industrial development or for facilities and equipment that handle or process agricultural by-products.

FINANCIAL SOLUTIONS FOR ENERGY AND WATER SYSTEMS

Since 1916, COBANK has been rural America's trusted financial partner. Today, COBANK is well-positioned to serve the financing needs of the rural energy and water industries. We offer a wide array of solutions that can enhance your company's bottom line.

Your industry demands capital for upgrades, to serve growing areas and to acquire new territories and business lines. COBANK stands ready to work with financially sound organizations with solid business plans.

More than 400 rural energy, water and waste disposal companies across the U.S. work with COBANK. We provide \$7.3 billion in loan commitments to the energy and water industries. These sectors represent 17.6 percent of the total loans and leases outstanding to the bank's customers. COBANK has a long-term commitment to these industries and continues to add resources to serve this important and growing market segment.

Meeting Your Capital Needs

COBANK offers a broad range of flexible loan programs. Whether your business is small, large or somewhere in between, our relationship managers can design a loan structure to fit your organization's goals.

COBANK offers a variety of interest rate alternatives—including fixed and variable rates—and alternative interest rate management and hedging tools. We provide short-term financing for working capital and general corporate purposes. Intermediate- and long-term loans can bring you the capital you need to construct new facilities, to remodel or expand existing facilities, to purchase land or equipment, or to finance other long-term assets including acquisitions and working capital.

Meeting the capital needs of a growing industry can be challenging—capacity is critical. As part of the \$140-billion Farm Credit System, we work with other Farm

Credit System institutions, as well as commercial banks, to bring you the level of capital you require.

Saving You Time and Money

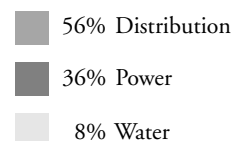
COBANK *Cash Manager* provides a full suite of cash management services integrated with your COBANK loans and investments. These services help you maximize the value of idle cash, increase financial control and save time. Services include controlled disbursement checking, ACH processing, account reconciliation, merchant card services, positive pay, lockbox, electronic check deposit services, commercial cards, check imaging on CD-ROM, detailed online reporting and AIM institutional money market funds—each offered through alliances with some of the nation's leading financial providers. All activities are seamless and integrated using *CoLink*®, COBANK's Internet delivery channel. COBANK *Credit Manager*, a free online service, gives you the ability to view investment rates, pay down your loan electronically, and initiate transfers and rate fixes online.

Saving Costs Through Leasing

Leasing can help you better manage cash flow, use capital more effectively, and avoid equipment obsolescence. COBANK can meet your leasing needs through our wholly-owned subsidiary, Farm Credit Leasing Services Corporation (FCL). Our experienced team of leasing experts understands the leasing needs of energy and water systems. We've used our industry knowledge to create a broad range of flexible, easy-to-use leasing solutions—all targeted toward helping you achieve your financial objectives.

FCL leases a wide range of equipment that is essential in the business operations of our customers. We lease fleet vehicles or other transportation equipment, right-of-way and substation maintenance equipment, construction equipment including bucket trucks, trenchers and back-hoes, and information technology, SCADA and mapping systems.

Energy & Water Commitments by Industry - \$7.3 Billion



Forming Alliances to Bring You More

Beyond loans and leases, COBANK can bring you a full range of other financial solutions you need to succeed, including private placements. We offer private placements through an alliance with an investment bank, providing an additional way to raise debt or equity capital.

Working With Your Industry

COBANK works with the Rural Utilities Service (RUS) to meet the energy financing needs of rural America. We support the energy industry through numerous trade organizations, including the National Rural Electric Cooperative Association (NRECA) and regional and statewide organizations.

About COBANK

For nearly a century, some of America's most successful businesses have turned to COBANK as their primary source of financial services. Today, COBANK provides \$26.3 billion in loans and leases outstanding to more than 2,300 customer-owners across the U.S. The bank has \$33.8 billion in assets and \$2.9 billion in capital.

Since COBANK is owned by its U.S. customers, the bank's customer-owners benefit directly from the bank's financial success.

Continued

SOLUTIONS FOR ENERGY AND WATER SYSTEMS (CONT.)

In 2006, COBANK expects to pay customer-owners \$171 million in cash for both stock retirements and cash patronage for the 2005 year. Patronage distributions for 2005 represent a 15.8 percent return on average invested capital for customer-owners.

COBANK specializes in energy, water, communications, agribusiness, cooperative, Farm Credit association, and agricultural export financing.

The funds to finance COBANK loans primarily come from the sale of Farm Credit System securities to investors in the national and international money markets.

Because of the market acceptance and attractiveness of Farm Credit securities and volume of funds raised, COBANK offers competitive interest rates.

For more information about COBANK, please call 1 (800) 542-8072, or please visit www.cobank.com.

FINANCIAL SOLUTIONS FOR COMMUNICATIONS COMPANIES

Since 1916, COBANK has been rural America's trusted financial partner. Today, COBANK is well-positioned to serve the communications industry's financing needs. We offer a wide array of solutions that can enhance your company's bottom line.

The rural communications industry demands capital for acquisitions, upgrades and new service offerings. COBANK stands ready to work with strong companies with solid business plans.

More than 200 rural communications companies across the U.S. work with COBANK. We provide \$2.9 billion in loan commitments to the industry. COBANK is committed to meeting the financial needs of rural America's communications companies.

Meeting Your Capital Needs

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COBANK offers a variety of competitive interest rate alternatives—including fixed and variable rates—and alternative interest rate management and hedging tools. We provide short-term financing for working capital and general corporate purposes. Intermediate- and long-term loans can bring you the capital you need to construct new facilities, upgrade or expand existing facilities, and make acquisitions.

Meeting the capital needs of a growing industry can be challenging—capacity is critical. As part of the \$140 billion Farm Credit System, we work with other Farm Credit System institutions, as well as commercial banks, to bring you the level of capital you require. We enhance our own knowledge and experience by investing in loans made by other financial institutions to the communications industry.

Saving You Time and Money

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Working With Your Industry

COBANK plays an active role in more than 60 communications industry associations and other organizations nationwide. We participate in conferences, serve on committees and boards, and support industry programs that help us stay ahead of the curve on issues facing rural communications companies. COBANK is a member of the National Telecommunications Cooperative Association (NTCA), Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), United States Telecom Association (USTA), Rural Cellular Association (RCA), Rural Independent

Communications

Commitments by Industry - \$2.9 Billion



- 72% Local Exchange Carrier
- 19% Wireless
- 6% Cable Television
- 3% Competitive Local Exchange Carrier

Competitive Alliance (RICA), National Cable Television Association (NCTA), each of the regional and state telecommunications associations and other industry organizations, such as the TELERGEE Alliance, Rural Telecommunications Group (RTG), American Cable Association (ACA), and the Coalition to Keep America Connected.

About COBANK

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For more information about COBANK, please call 1 (800) 542-8072, or visit www.cobank.com.

Data as of Dec. 31, 2005

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